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Borden Company

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The Borden Company

AND SUBSIDIARY COMPANIES

SECOND ANNUAL REPORT

For the fiscal year ended December 31, 1920

April 1921 • THE BORDEN COMPANY • *New York*

The Borden Company

AND SUBSIDIARY COMPANIES



SECOND ANNUAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 1920



April 1921

THE BORDEN COMPANY

New York

THE BORDEN COMPANY

DIRECTORS

LEWIS M. BORDEN
WALTER M. GLADDING
EDGAR L. MARSTON

THEODORE F. MERSELES
ALBERT G. MILBANK
ARTHUR W. MILBURN

GEORGE L. NICHOLS
HENRY C. SHERMAN
FRANKLIN D. SHOVE

OFFICERS

ALBERT G. MILBANK, *Chairman Board of Directors*
ARTHUR W. MILBURN, *President*
WALTER M. GLADDING, *Vice-President*
FRANKLIN D. SHOVE, *Treasurer*
SHEPARD RARESHIDE, *Assistant Treasurer*
SIDNEY J. PEARSON, *Secretary*
WILLIAM P. MARSH, *Assistant Secretary*
ALBERT T. JOHNSTON, *Assistant to the President*
GEORGE M. WAUGH, JR., *Controller*

DURING the year four Executive Managers were appointed, each continuing his prescribed duties and, in addition, being given executive control over a group of Departments. The appointees are as follows:

ALBERT T. JOHNSTON	SHEPARD RARESHIDE
CHARLES C. LOBECK	WALLACE D. STRACK

The Vice-President, and Executive Managers, constitute the Advisory Committee.

GENERAL OFFICES

THE BORDEN COMPANY

108 Hudson Street, New York City

180 St. Paul Street West, Montreal, Canada

BORDEN'S FARM PRODUCTS COMPANY, Inc.

63 Vesey Street, New York City

120 Murray Street, Montreal, Canada

Transfer Agent, MERCANTILE TRUST COMPANY, 115 Broadway, New York City

Registrar, BANKERS TRUST COMPANY, 16 Wall Street, New York City

Counsel, MASTEN & NICHOLS, 49 Wall Street, New York City

SECOND ANNUAL REPORT
THE BORDEN COMPANY
AND SUBSIDIARY COMPANIES



To the Stockholders:

*IN accordance with the adopted policy
of the Directors, it is my pleasure to submit
herewith our Second Annual Report for the
fiscal year ended December 31, 1920.*

CORPORATE ORGANIZATION AND SCOPE

THE business of your Company may be divided into two parts:

[1] The manufacture and sale of milk products comprising:

CONDENSED MILK	CONDENSED COFFEE AND MILK
EVAPORATED MILK	CONDENSED COCOA AND MILK
DRIED MILK	MILK CHOCOLATES
MALTED MILK	CARAMELS

[2] The purchase, preparation and distribution of fresh milk, cream, and other dairy products by a system of wagon deliveries.

THE manufacturing operations are conducted by The Borden Company [which dates back to 1857 in the production of Eagle Brand Condensed Milk], and its following manufacturing subsidiaries:

<i>Corporate Name</i>	<i>Percentage of Stock Owned</i>
THE BORDEN SALES CO., INC.	100%
BORDEN'S PREMIUM CO., INC.	100%
THE BORDEN COMPANY OF CALIFORNIA	100%
THE BORDEN COMPANY OF UTAH	100%
THE BORDEN COMPANY, LTD. (CANADA)	100%

THE fresh milk and dairy products distribution in the so-called Metropolitan District of New York City and adjacent territory, in Chicago, Ill., and its suburbs, and in Montreal, Canada, is conducted by Borden's Farm Products Company, Inc., and subsidiaries as follows:

<i>Corporate Name</i>	<i>Percentage of Stock Owned</i>
BORDEN'S FARM PRODUCTS CO., INC.	97.13%
BORDEN'S FARM PRODUCTS CO., LTD. (CANADA)	100.00%
BORDEN'S WEST STOCKBRIDGE CORP.	100.00%

BORDEN's Farm Products Company, Inc., and its subsidiaries, have their own operating organizations and headquarters distinct from those of The Borden Company (the parent concern) and its manufacturing subsidiaries. This distinction is necessitated by the essential difference in the nature and problems of the two branches of the business.

PROPERTY, PLANT AND EQUIPMENT

THE details as to the kind and number of properties and the nature of the equipment comprising this investment appeared in the 1919 report of this Company, copies of which are available and will be mailed to those of our stockholders who may so request. Property values are carried as determined by the American Appraisal Company in 1911, except as to properties acquired since that time which are in no case carried at over cost and, in many cases, have been specially depreciated.

The increase in the property account is largely accounted for by the purchase during the past year of property at Madison Avenue and 45th Street, New York City, and the erection thereon by the Company of a modern twenty-three story office building, nine floors of which when completed will be used by this Company as its home office. The remainder will be leased. It is expected that this property will prove an excellent investment, the net result of which will be very cheap rental to this Company for the space it occupies.

There is also reflected in this increase the completed cost of a new dry milk plant located at Belmont, N. Y., and, as well, general betterment and new equipment expenditures, of which there is in most years necessarily a considerable amount. Plant extension, however, has been paid for from earnings for years past, the amount of earnings over dividends paid having more than equalled the additions to Property, Plant and Equipment account (including the Madison Avenue property and the Belmont plant above referred to).

The Madison Avenue property will be owned by the Borden Realty Corporation all of the stock of which will be owned by The Borden Company. It is expected that during the current year the Realty Corporation will effect a financing of the cost of the new building which will release a substantial portion, at least, of The Borden Company's funds now invested in that operation.

GENERAL REMARKS

DURING the year 1920, the Company shared the common lot of industry generally in having to combat the uncontrollable forces attending the world's economic readjustment. This was more particularly true as applied to its manufacturing activities, embracing, as they do, world markets and making necessary the investment in large quantities of commodities, the prices of which suffered most severe declines during the year, the most precipitate and far-reaching being that of sugar.

The fresh milk business, being more localized and essentially a distributing business, while always subjected to many complexities, was not involved in many of the difficulties to which manufacturing activities were subjected during the last year, and yielded what, by comparison and when taking into consideration its nature, was a more satisfactory result of operations than did the manufacturing business.

The extent and effect of 1920 conditions, as applying to the condensed milk industry as a whole, are evidenced by the fact that at the beginning of October, 1920, many plants were closed for the first time in their history, and in increasing numbers, until toward the close of the year when production by all of the larger companies had practically ceased.

The effect of all of these abnormal conditions, while experienced in fullest force during the year, found the Company adequately prepared to absorb the shocks and enter the new year with inventories owned at cost or "the market" of December 31, 1920, whichever was the lower. Inventory losses were absorbed in part by charges to Current Income and in part by charges to Reserves created out of profits of previous years to meet the contingencies that developed; the latter, however, only to the extent that the contributing cause was, in the judgment of the Board of Directors, an uncontrollable one.

Reference to the financial statements appended shows that the Net Income for the year of \$2,818,859.99 amounts to 2.34% on the gross sales of \$120,293,572.74 or 6.7% on the actual capital invested in the business, not including borrowed capi-

tal and irrespective of the investment in Trade Marks, Patents and Good Will.

The Trade Name and Trade Marks carried on the books at \$5,947,166.18 (including Patents) represent over \$2,000,000 cash expenditures.

The Net Income applicable to the Common Stock, after charges of every nature and after Preferred Dividends, is equivalent to \$10.95 per share of Common Stock outstanding.

The average annual Net Income applicable to the Common Stock for a period of the last five years is \$15.33 per share.

The net Asset Value (not including Trade Marks, Patents and Good Will) of each share of Common Stock outstanding on December 31, 1920, with Property, Plant and Equipment at depreciated values and after allowing for the retirement of all Preferred Stock, was \$125.33 per share.

The net Asset Value (not including Trade Marks, Patents and Good Will) of each share of Preferred Stock outstanding on December 31, 1920, with Property, Plant and Equipment at depreciated values, was \$467.07.

The Net Income, after charges of every nature, is for 1920 equivalent to \$37.19 per share of Preferred Stock outstanding.

The average annual Net Income for a period of the last five years is equivalent to \$49.63 per share of Preferred Stock outstanding.

During the last year the number of Preferred Stockholders was increased by 115 and the number of Common Stockholders by 369, making a total of 1,364 holders of Preferred Stock and 3,511 holders of Common Stock, or a grand total of 4,875 holding both classes. In this connection it is gratifying to note that 680 of the employees now hold stock in the Company, their numbers having increased by 155 during the year and their holdings by about 50%.

Current Assets as of December 31, 1920, amounted to \$1.64 for every \$1.00 of Current Liabilities, after the write-off of inventories above referred to.

Bank loans on December 31, 1920, were \$12,750,000 largely the result of increased inventories and the temporary financing from current funds of our Madison Avenue building operations referred to on Page 7 of this report. Since the close of the year bank loans have been reduced to \$7,800,000 and as a result, principally of this, Current Assets at this time have been increased to \$2.00 for every \$1.00 of Current

Liabilities. By the end of the current year further substantial reduction in bank loans is confidently expected.

The total of Purchase Money Notes was reduced during the year by \$400,583.34, the maturities falling within that period having been paid.

The increase in the item of Mortgages is accounted for by the assumption of certain underlying mortgages in connection with the purchase of our new Madison Avenue property.

The Company continued to enjoy its favorable experience in the matter of credit losses during the year. Collections were good, particularly so when viewed in the light of prevailing conditions. In our purchases advantage was taken of all cash discounts.

It gives satisfaction to know that although the Company was called upon during the war period to provide for greatly increased consumption of its manufactured products, it at the same time made favorable disposition of some of its older and obsolete plants. The necessary expansion was accomplished in a manner that enables us to face the future with sufficient capacity to meet the requirements of the next year or two, as we now measure them, with a Plant and Equipment investment more efficient and better located than in 1917, and representing an investment but slightly larger than in that year, which marked the beginning of the abnormal war-period demand.

Since the first of the current year, new business in staple products, and in some specialties as well, has been steadily improving.

In February we resumed partial operation of our condenseries; this has extended until we are at the time of issuing this report operating all of our plants. The resumption of operations is now quite general throughout the industry.

Labor has been procurable in sufficient numbers at our various condensery points at wage rates which, although considerably in excess of pre-war levels, are 10% to 20% under the rates prevailing in 1920.

While export business is still at a low point, the volume of domestic orders is at this time satisfactory.

With inventories and selling prices adjusted, and the demand for Borden's brands clearly proven during the trying period of 1920, and, for the most part, the

effects of the adjustment period having been experienced, we feel that a growing and profitable demand for our products, particularly in home markets, is assured.

The recovery of European milk production and the state of the exchanges make for uncertainty as to profitable export operations during the current year.

As a contributing factor of large importance, the sustained and even greater interest, co-operation and loyalty of the employees of our organization deserve special mention.

Respectfully submitted,

ARTHUR W. MILBURN,

President.

THE BORDEN COMPANY *and* SUBSIDIARY COMPANIES
Consolidated General Balance Sheet, December 31, 1920

ASSETS

Property, Plant, and Equipment	\$24,440,557.20
CURRENT ASSETS:	
Cash	\$3,034,217.60
Receivables	6,445,654.61
Marketable Securities	900,746.68
Finished Goods	10,442,953.71
Raw Materials, Supplies, etc.	8,729,403.11
	<u>29,552,975.71</u>
Investment in Capital Stock of Other Companies.	6,506,697.00
Deferred and Suspended Assets	403,681.25
Trade Marks, Patents, and Good Will	5,947,166.18
	<u>\$66,851,077.34</u>
TOTAL ASSETS	\$66,851,077.34

TOTAL \$66,851,077.34

THE BORDEN COMPANY *and* SUBSIDIARY COMPANIES

Consolidated General Balance Sheet, December 31, 1920

LIABILITIES

Mortgages	\$382,700.00	
Purchase Money Notes	<u>400,000.00</u>	\$782,700.00

CURRENT LIABILITIES:

Notes Payable—Bank Loans	\$12,750,000.00	
Accounts Payable	3,800,734.94	
Accrued Accounts, Taxes (estimated), etc.	<u>1,414,493.76</u>	17,965,228.70
Deferred and Suspended Liabilities		<u>72,008.65</u>
TOTAL LIABILITIES TO OTHER THAN STOCKHOLDERS		\$18,819,937.35

CAPITAL STOCK:

The Borden Co., 6% Preferred	\$7,500,000.00	
The Borden Co., Common	21,368,100.00	
Borden's Farm Products Co., Inc., 7% First Preferred	<u>417,700.00</u>	29,285,800.00

RESERVES:

Depreciation	\$6,636,015.10	
Insurance, Contingencies, etc.	<u>5,504,547.60</u>	12,140,562.70
SURPLUS		6,604,777.29

TOTAL CAPITAL STOCK, RESERVES, AND SURPLUS 48,031,139.99

TOTAL \$66,851,077.34

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THE BORDEN COMPANY *and* SUBSIDIARY COMPANIES

Statement of Consolidated Income and Profit and Loss for the Year Ended December 31, 1920

GROSS SALES		<u>\$120,293,572.74</u>
NET OPERATING PROFIT:		
(After deducting all operating charges, including Deprecia- tion, Insurance, and Property Taxes)		\$3,503,002.37
OTHER DEDUCTIONS:		
Interest—Net	\$540,082.43	
Income and Profits Taxes (estimated)	<u>144,059.95</u>	
		684,142.38
NET INCOME		<u>\$2,818,859.99</u>
SURPLUS, January 1, 1920		<u>6,856,051.48</u>
	TOTAL	\$9,674,911.47
LESS:		
DIVIDENDS:		
The Borden Company, Preferred 6%	\$450,000.00	
The Borden Company, Common 8%	1,709,440.00	
Borden's Farm Products Company, Inc., First Preferred 7%	<u>29,239.00</u>	
	Total Dividends .	\$2,188,679.00
Appropriations for Reserves	605,920.78	
Loss on Property and Securities Sold	<u>275,534.40</u>	
		3,070,134.18
SURPLUS, December 31, 1920		<u><u>\$6,604,777.29</u></u>

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NEW YORK
CHICAGO
PHILADELPHIA
DETROIT
CLEVELAND
SAINT LOUIS
BOSTON
BALTIMORE
PITTSBURGH
SAN FRANCISCO
LOS ANGELES
BUFFALO
CINCINNATI
NEW ORLEANS

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

CABLE ADDRESS "HASKSELLS"

30 BROAD STREET
NEW YORK

KANSAS CITY
SEATTLE
PORTLAND
DENVER
ATLANTA
DALLAS
SALT LAKE CITY
TULSA
WATERTOWN
LONDON
PARIS
HAVANA
SHANGHAI

THE BORDEN COMPANY *and* SUBSIDIARY COMPANIES

CERTIFICATE OF AUDIT

WE have audited the books and accounts of The Borden Company and its Subsidiary Companies for the year ended December 31, 1920.

We have verified the accounts representing cash and securities either by examination of such assets or by obtaining certifications of depositaries.

The charges to property accounts have been controlled by a conservative policy. Adequate reserves have been provided for depreciation of property and for possible losses, and full provision has been made for all known liabilities.

The inventories of finished goods and raw materials and supplies represent book balances as shown by the inventory records, which are adjusted from time to time to agree with physical inventories, and which were examined and appear to be correct, all inventory valuations being based upon cost or market, whichever was lower.

WE HEREBY CERTIFY that, in our opinion, the accompanying Consolidated General Balance Sheet and Statement of Consolidated Income and Profit and Loss correctly exhibit, respectively, the financial condition of the Companies at December 31, 1920, and the results of their operations for the year ended that date.

HASKINS & SELLS

New York, March 15, 1921.

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